Financial Statements of

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Year ended March 31, 2014

VIRTUS GROUP

Chartered Accountants & Business Advisors LLP

INDEPENDENT AUDITORS' REPORT

To: Members of the Legislative Assembly
Province of Saskatchewan

We have audited the accompanying financial statements of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation,** which comprise the statement of financial position as at March 31, 2014, the statements of operations, remeasurement gains, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation** as at March 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

May 20, 2014
Regina, Saskatchewan, Canada

Virtus Group LLP
Chartered Accountants

The King George, Suite 200, 157 - 2nd Avenue North
Saskatoon, Saskatchewan S7K 2A9
Telephone 306-653-6100 Fax 306-653-4245
Toll Free 1-888-285-7677
Email virtus.saskatoon@virtusgroup.ca
Firm Website: www.virtusgroup.ca

Central Park Place, 200-2208 Scarth Street
Regina, Saskatchewan S4P 2J6
Telephone 306-522-6500 Fax 306-522-6222
Toll Free 1-888-258-7677
Email virtus.regina@virtusgroup.ca

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Financial Position

March 31, 2014 with comparative figures for 2013

	2014	2013
Financial assets:		
Cash	$ 13,741,073	$ 7,535,056
Accounts receivable	31,842	17,194
Due from Western Canada Lottery - Saskatchewan Division Inc.	8,839,764	10,628,966
Investments (note 3)	82,519,929	85,619,927
	105,132,608	103,801,143
Liabilities:		
Accounts payable	90,471	76,060
Due to Province of Saskatchewan - General Revenue Fund	26,693	280,928
Grants payable (note 4)	80,924,138	78,559,518
	81,041,302	78,916,506
Net financial assets	24,091,306	24,884,637
Net financial assets is comprised of:		
Restricted trust fund balances	21,741,081	23,710,053
Accumulated remeasurement gains	2,350,225	1,174,584
	$ 24,091,306	$ 24,884,637

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Operations

Year ended March 31, 2014 with comparative figures for 2013

	Budget 2014 (note 8)	2014	2013
Transfer of net lottery profits from Western Canada Lottery - Saskatchewan Division Inc. (Schedule 2)	$ 56,207,800	$ 61,837,224	$ 63,212,843
Less contractual payments: (note 5)			
Federal Government payment	2,060,600	1,984,106	1,970,459
Former distributors	1,444,100	1,442,320	1,440,160
Payment to the Province of Saskatchewan - General Revenue Fund	7,290,000	7,540,442	7,428,428
Saskatchewan Association of Agricultural Societies and Exhibition Associations	310,000	310,000	310,000
	11,104,700	11,276,868	11,149,047
Lottery profits after contractual payments	45,103,100	50,560,356	52,063,796
Investment income	1,802,500	2,212,118	1,974,771
Less administration expenses (Schedule 3)	795,090	794,634	756,648
Funds available to provide grants	46,110,510	51,977,840	53,281,919
Less grants (Schedule 1)	51,899,600	53,946,812	58,538,111
(Decrease) in restricted trust fund balances	(5,789,090)	(1,968,972)	(5,256,192)
Restricted trust fund balances, beginning of year	23,710,053	23,710,053	28,966,245
Restricted trust fund balances, end of year	$ 17,920,963	$ 21,741,081	$ 23,710,053

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Remeasurement Gains

Year ended March 31, 2014 with comparative figures for 2013

	2014	2013
Accumulated remeasurement gains at beginning of year	$ 1,174,584	$ 465,455
Unrealized gains attributable to:		
Bank stocks	629,571	162,386
Pooled funds	546,070	546,743
Remeasurement gains for the year	1,175,641	709,129
Accumulated remeasurement gains at end of year	$ 2,350,225	$ 1,174,584

Statement of Cash Flows

Year ended March 31, 2014 with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
(Decrease) in restricted trust fund balances	$ (1,968,972)	$ (5,256,192)
Realized (gain) on sale of investments	-	(1,016,267)
Items not affected by cash:		
Unrealized (loss)/gain on investments	(5,740)	1,174,584
Net change in non-cash working capital items:		
Accounts receivable	(14,648)	(10,728)
Due from Western Canada Lottery - Saskatchewan Division Inc.	1,789,202	497,786
Accounts payable	14,411	11,814
Due to Province of Saskatchewan - General Revenue Fund	(254,235)	236,519
Grants payable	2,364,620	9,219,454
	1,924,638	4,856,970
Investing activities:		
Purchase of investments	(1,006,463)	(78,480,743)
Proceeds from disposal of investments	5,287,843	73,129,958
	4,281,380	(5,350,785)
Increase/(decrease) in cash during the year	6,206,018	(493,815)
Cash, beginning of year	7,535,056	8,028,871
Cash, end of year	$ 13,741,073	$ 7,535,056

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

1. **Nature of operations:**

The Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (the Trust) was established in 1974 and is continued pursuant to the *Interprovincial Lotteries Act 1984* and a Distribution Agreement between the Minister of Parks, Culture and Sport for the Province of Saskatchewan and Sask Sport Inc. Under the terms of the agreement, Sask Sport Inc. has been designated as the provincial marketing organization to sell Western Canada Lottery Corporation lottery tickets in Saskatchewan. Sask Sport Inc. has established the Western Canada Lottery - Saskatchewan Division Inc. to market, and Sask Sport Distributors Inc. to distribute these tickets on its behalf. The current agreement expired March 31, 2014 and a new agreement, with similar terms and an expiry date of March 31, 2019 was signed.

The agreement requires that the net lottery profits (detailed in Schedule 2) are transferred to the Trust and further that, after the payments described in note 5, and the expenses of operating the Trust have been paid, all remaining funds be allocated to sport, culture and recreation. The profits (allocated 50% to sport, 35% to culture and 15% to recreation) are restricted for granting to eligible organizations designated by the Minister of Parks, Culture and Sport for the Province of Saskatchewan. Each of these three sections contributes funds to the Saskatchewan Lotteries Community Grant Program in the same percentage as above; and to the Saskatchewan Lotteries Community Development Fund as follows: 40% by sport, 30% by culture and 30% by recreation.

The lottery agreement also requires Sask Sport Inc., as designated provincial marketing organization for lottery tickets, to pay out of the Trust directed payments as described in note 5.

2. **Significant accounting policies:**

The Trust follows generally accepted accounting principles as recommended by the Public Sector Accounting Board of the CPA Canada (PSAB). Public Sector Accounting Standards (PSAS) classify the Trust as an "other government organization".

Basis of accounting and use of estimates:

The preparation of financial statements in accordance with the PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current revenues and expenses when identified.

Investments:

All equity and pooled fund investments are recorded at fair market value with unrealized gains and losses reported on the Statement of Remeasurement Gains. When such gains and losses become realized they will be reported in the statement of operations. Fixed income investments are recorded at amortized cost.

2. **Significant accounting policies (continued):**

Grant expense and contractual payments:

Grants to eligible organizations are recorded when approved by the Trust Committee or Sask Sport Inc. Board of Directors and all eligibility criteria are met. Contractual payments are recognized by the Trust as required by the lottery agreement.

Revenue recognition:

Lottery profits are recognized by the Trust in the period they are earned by the Western Canada Lottery – Saskatchewan Division Inc. Investment income is recognized in the period earned. Premiums and discounts on bond investments are amortized to income using the effective interest method.

3. **Investments:**

Investments at March 31 consist of:

	2014		2013	
	Carrying Value	Market Value	Carrying Value	Market Value
Government Bond	$ 3,963,974	$ 3,974,630	$ 3,857,330	$ 3,919,283
Guaranteed Investment Certificates	67,321,821	67,323,436	71,835,630	71,823,322
Bank Shares	4,413,564	4,413,564	3,618,226	3,618,226
Connor Clark & Lunn Pooled Funds	6,820,569	6,820,569	6,308,741	6,308,741
	$ 82,519,929	$ 82,532,199	$ 85,619,927	$ 85,669,572

Government Bond matures June 1, 2014 (2013 – June 1, 2014) and has an effective interest rate of 2.9% (2013 - 2.9%). Guaranteed investment certificates mature between July 14, 2014 and January 30, 2017 (2013 – March 3, 2014 and January 30, 2017) and have effective interest rates ranging from 1.82% to 3.15% (2013 – 1.82% to 4.00%). Connor Clark and Lunn Pooled Funds consist of managed fixed income and equity investments in pooled funds. As such they have no specified rate of return or maturity. The bank shares have no specified rate of return or maturity. Market values are the values quoted by the applicable market on March 31.

4. **Grants payable:**

	2014	2013
Community Grant Programs	$ 19,900,814	$ 19,667,106
Culture	19,691,266	18,960,973
Recreation	7,069,750	6,911,770
Sport	34,262,308	33,019,669
	$ 80,924,138	$ 78,559,518

5. **Contractual payments:**

Under the terms of An Agreement for the Distribution of Funds with the Minister of Parks, Culture and Sport for the Province of Saskatchewan, the Trust is required to make the following payments to:

- the Federal Government which, under an agreement dated September 23, 1979 with the Interprovincial Lottery Corporation, withdrew from the lottery field in exchange for $24,000,000 annually, in 1979 dollars. Saskatchewan's share of this payment, for the year ended March 31, 2014, was $1,984,106 (2013 - $1,970,459).
- Sask Sport Distributors Inc. to cover the distributor payments made to those volunteer non-profit organizations that previously acted as ticket distributors. This amounted to $1,442,320 (2013 - $1,440,160) during the current year. Of this amount, Sask Sport Inc., as a former ticket distributor, received $358,560 (2013 - $358,560) during the current year.
- the General Revenue Fund of the Province of Saskatchewan in the amount of 3.75% of net lottery ticket sales (2013 - 3.75% of net lottery ticket sales). During the current year $7,540,442 (2013 - $7,428,428) was paid.
- the Saskatchewan Association of Agricultural Societies and Exhibition Associations in the amount of $310,000 (2013 - $310,000) for the current year.

6. **Related party transactions:**

Sask Sport Inc., as a sport federation, received grants from the Trust of $4,042,824 (2013 - $2,981,639) during the current year, to provide programs and services to its member sport organizations. Sask Sport Inc. also received $9,702 (2013 - $9,998) as a fee for providing office equipment for use during the current year. Administrative expenses include direct expenses of the Trust as well as expenses allocated from Sask Sport Inc. based on Sask Sport Inc. resources used in the management and administration of the Trust.

The Administration Centers for Sport, Culture and Recreation (1989) Inc., a wholly owned subsidiary of Sask Sport Inc., provides office space and administrative services for non-profit sport, culture and recreation associations and received a grant from the Trust of $602,550 (2013 - $585,040) during the current year. In addition, the Trust paid to the Administration Centers for Sport, Culture and Recreation (1989) Inc. $50,174 (2013 - $49,551) for office space and services.

These financial statements include transactions with related parties. The Trust is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Trust is related to non-Crown enterprises that the Government jointly controls or significantly influences.

6. **Related party transactions (continued):**

These transactions are in the normal course of operations and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. Other related party transactions and amounts due to/from are disclosed separately in these financial statements.

7. **Financial instruments and risks:**

Fair value:

The recorded value of receivables and payables are measured at amortized cost, which approximates their fair value. Investments recorded at fair value are measured using inputs from one of three levels. Level 1 inputs are quoted prices readily available from an active market. Level 2 inputs are quoted prices included within Level 1 that are observable either directly or indirectly. Level 3 inputs are fair values not obtained from market data. The Trust fund measures government bonds, guaranteed investment certificates and pooled funds based on level 2 inputs. The Trust fund measures bank shares based on level 1 inputs.

Credit and interest rate risk:

The Trust is not subject to significant credit risk. The Trust may be subject to significant interest rate risk relative to certain investments described in Note 3. To mitigate the effects of interest rate changes the Trust applies investing policies that address portfolio mix, maturities, and liquidity.

Liquidity risk:

The Trust is not subject to significant liquidity risk as its primary receivable is with Saskatchewan Lotteries which is well capitalized and has a history of transferring funds in a timely manner. The Trust invests funds based on the timing of its grant obligations and continuously monitors this to ensure these obligations can be met. Its short term investments are highly liquid.

Price risk:

The Trust is subject to price risk through its investment in publicly traded securities and pooled funds. These instruments comprise 12% of the investment portfolio and are subject to price changes in the open market. The Trust does not use any derivative financial instruments to alter the effects of this risk.

8. **Budget:**

The original budget was approved by the Board of Sask Sport Inc. on February 5, 2013. Revisions to the budget were approved by the Board on December 5, 2013 and February 4, 2014.

9. **Statement of Changes in Net Assets:**

A Statement of Changes in Net Assets has not been prepared as the information is readily apparent from the financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 1 - Restricted Trust Fund Balances

Year ended March 31, 2014 with comparative figures for 2013

	Restricted trust fund balances, beginning of year	Allocation of funds available to provide grants	Grants approved - net of returns	(Decrease) in funds	Restricted trust fund balances, end of year
Community Development	$ 468,017	$ 4,322,951	$ (4,544,968)	$ (222,017)	$ 246,000
Community Grant	2,088,253	5,431,300	(5,475,158)	(43,858)	2,044,395
Culture	6,141,891	14,994,404	(16,311,452)	(1,317,048)	4,824,843
Recreation	3,212,533	5,685,096	(5,749,279)	(64,183)	3,148,350
Sport	11,799,359	21,544,089	(21,865,955)	(321,866)	11,477,493
Total 2014	$ 23,710,053	$ 51,977,840	$ (53,946,812)	$ (1,968,972)	$ 21,741,081
Total 2013	$ 28,966,245	$ 53,281,919	$ (58,538,111)	$ (5,256,192)	$ 23,710,053

Schedule 2 - Net Lottery Profits

Year ended March 31, 2014 with comparative figures for 2013

	Budget 2014 (note 8)	2014	2013
Lottery ticket sales	$ 194,400,000	$ 201,078,474	$ 198,091,408
Revenue and expense items paid by the Western Canada Lottery Corporation:			
Prizes	(102,282,000)	(105,298,551)	(102,579,597)
Administration and ticket printing	(19,279,300)	(17,920,341)	(16,470,318)
Retailer commissions	(11,393,000)	(11,545,885)	(11,305,780)
Federal and provincial taxes	(1,487,800)	(1,444,831)	(1,379,063)
Investment income	152,700	366,185	235,518
Lottery profits transferred from the Western Canada Lottery Corporation	60,110,600	65,235,051	66,592,168
Provincial interest and other income	237,500	219,410	229,743
Provincial distribution expenses (note 1)	(2,465,660)	(2,188,970)	(2,182,267)
Provincial marketing expenses (note 1)	(1,674,640)	(1,428,267)	(1,426,801)
Net lottery profits	$ 56,207,800	$ 61,837,224	$ 63,212,843

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 3 - Administration Expenses

Year ended March 31, 2014 with comparative figures for 2013

	Budget 2014 (note 8)	2014	2013
Salaries and benefits	$ 637,940	$ 665,151	$ 608,347
Rent	34,500	34,127	33,401
Office supplies	20,630	21,230	15,846
Professional fees	27,350	16,487	35,475
Committee meetings	21,400	15,168	22,822
Equipment expense	10,750	9,702	9,998
Printing	7,500	7,201	5,476
Telephone	7,100	6,599	6,772
Insurance	5,620	5,455	5,016
Postage	5,500	5,024	5,388
Travel and training	10,600	3,576	2,940
Goods and services tax	3,700	3,193	3,672
Repairs and maintenance	2,500	1,721	1,495
Total administration expenses	$ 795,090	$ 794,634	$ 756,648

See accompanying notes to financial statements.